UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/46/5/Add.1
1 August 1991

ORIGINAL: ENGLISH

Forty-sixth session
Item 106 of the provisional agenda*

FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS

Interim report of the Board of Auditors on the United Nations Development Programme for the first year of the biennium 1990-1991**

---

* A/46/150.

** The present document contains the interim report of the Board of Auditors on the United Nations Development Programme for the first year of the biennium 1990-1991. The financial report and audited financial statements for the biennium ended 31 December 1991 and the report of the Board of Auditors regarding the Programme will be issued as Official Records of the General Assembly, Forty-seventh Session, Supplement No. 5A (A/47/5/Add.1).

CONTENTS

		Paragraphs	Page
LETTER OF TRANSMITTAL			4
INTERIM REPORT OF THE BOARD OF AUDITORS			5
I.	INTRODUCTION	1 - 4	5
II.	FOLLOW-UP ON ACTIONS TAKEN ON PREVIOUS AUDIT RECOMMENDATIONS	5	6
III.	SUMMARY OF RECOMMENDATIONS	6	7
IV.	SUMMARY OF FINDINGS	7 - 21	8
V.	FINDINGS	22 - 114	10
	A. Agency accountability	22 - 34	10
	B. Office for Project Services	35 - 81	12
	1. Project budget management	36 - 41	12
	2. Financial completion of projects	42 - 47	13
	3. Technical devices for improved project management	48 - 55	14
	4. Workload of project management officers and the role of the Project Acceptance Committee	56 - 62	16
	5. Procurement services on behalf of Governments	63 - 68	17
	6. Delegation of procurement of project equipment	69 - 73	18
	7. Consultant contracts	74 - 81	19
	C. Economists for Africa Programme	82 - 114	20
	1. Implementation of the concept	83 - 91	21
	2. Economists in the UNDP pattern of career development	92 - 94	22
	3. Economists in the field office structure	95 - 97	23
	4. Contracting procedure and extension of contracts	98 - 102	23

CONTENTS (continued)

	Paragraphs	Page
5. Placement of economists	103 - 110	24
6. Junior economists	111 - 114	25
VI. ACKNOWLEDGEMENT	115	27
Annex. Follow-up on actions taken on previous audit recommendations ...		28

LETTER OF TRANSMITTAL

2 July 1991

Sir,

I have the honour to transmit to you the interim report of the Board of Auditors on the United Nations Development Programme for the first year of the biennium 1990-1991, in accordance with paragraph 8 of General Assembly resolution 45/235 of 21 December 1990.

Accept, Sir, the assurances of my highest consideration.

(Signed) Heinz Günter ZAVELBERG
President of the Federal Court
of Audit of Germany
and Chairman,
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York, NY

INTERIM REPORT OF THE BOARD OF AUDITORS

I. INTRODUCTION

1. The General Assembly in its resolution 45/235 of 21 December 1990 approved the changes in the financial procedures of the United Nations Development Programme (UNDP), as recommended by the Governing Council in its decision 90/48. In the future, the Board of Auditors, in accordance with the UNDP Financial Regulations as amended by Governing Council decision 90/49, will issue its report on the audit of the financial statements and relevant schedules of UNDP relating to the accounts for the financial period on a biennial basis. The audit report on the current biennium 1990-1991 will be submitted in 1992.

2. The General Assembly, in its resolution 45/235, as well as the Governing Council, in its decision 90/48, invited the Board of Auditors to issue a special report for the first year of a biennium through the Advisory Committee on Administrative and Budgetary Questions if, in the opinion of the Board, there were matters that needed to be brought to the attention of the Governing Council and/or the General Assembly.

3. The Board of Auditors herewith issues an interim audit report on UNDP to convey information on observations during the first year of the current biennium 1990-1991. The primary objective of the present report is to provide more up-to-date information in order to facilitate decision-making and to expedite the taking of prompt remedial action. Furthermore, the preparation of the interim report presents an opportunity to emphasize and particularly focus on management issues that, although included in the normal practice of auditing, in the process of regular reporting are often likely to fall short of receiving adequate consideration. Accordingly, the following sections pay particular attention to such aspects as economy, efficiency and effectiveness.

4. The Board of Auditors continued its normal practice of reporting the results of specific audits in the field and at headquarters and of issuing management letters to the administration. The audits were carried out in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the common auditing standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency (IAEA). All the observations included in the present report were discussed with the administration and its views have been reflected where appropriate.

II. FOLLOW-UP ON ACTIONS TAKEN ON PREVIOUS AUDIT RECOMMENDATIONS

5. The Board noted that various actions were taken on the recommendations made by the Board in its audit report for the year ended 31 December 1990. The details and comments of the Board are outlined in the annex. Summarizing, the Board wishes to emphasize, however, that further efforts are needed. In particular, there are still no adequate procedures in place to obtain audited statements of executing agencies in time for the audit and final issuance of the audit opinion on the financial statements of UNDP. Consequently, the audit opinion will again be qualified unless the situation changes.

III. SUMMARY OF RECOMMENDATIONS

6. We recommend that the following corrective actions, presented in order of priority, be taken:

(a) Further efforts should be made to require all executing agencies within the United Nations system to sign basic agreements about their responsibilities in executing UNDP-funded projects (paras. 25-29);

(b) The Standard Basic Executing Agency Agreement should be amended to include provisions that:

(i) The mandate of the agency's external auditor comprises assessment of the efficiency and effectiveness of the agency's project implementation;

(ii) In addition to the official audit report, all pertinent audit findings are submitted to UNDP and its external auditor (paras. 30-34);

(c) The number of projects to be executed should be strictly controlled so as not to exceed the management capacity of the Office for Project Services (paras. 56-62);

(d) New development initiatives should be tested and the results of the trial period evaluated to establish a sound basis for the decision about full-scale implementation and further input of resources (paras. 83-91);

(e) Budget management and completion of projects executed by the Office for Project Services need to be improved effectively (paras. 36-41 and 42-47);

(f) The retroactive signing of contracts with consultants practised in the Office for Project Services should be discontinued immediately (paras. 74-77);

(g) The Office for Project Services should provide management services only on a sound legal basis with both the funding donor and the recipient (paras. 63-68);

(h) The Office for Project Services should use its authority more consistently to delegate procurement activities (paras. 69-73).

IV. SUMMARY OF FINDINGS

7. With many United Nations agencies executing UNDP projects no standard basic agreements have yet been signed (paras. 22-29).

8. The existing standard basic agreements with executing United Nations agencies ensure neither full audit coverage of UNDP funds entrusted to them nor adequate information to UNDP or the UNDP external auditor on how the funds have been spent (paras. 30-34).

9. Considerable overexpenditures as well as unspent balances of project budgets indicate deficiencies in project management by the Office for Project Services (paras. 36-41).

10. A large number of projects with a duration of more than six years, including a large share of projects that had been operationally completed or remained inactive for more than a year, have not yet been financially closed (paras. 42-47).

11. Electronic data processing and other means that could facilitate the monitoring functions and thus improve project management performance have not yet been implemented or are inadequate (paras. 48-55).

12. The Project Acceptance Committee is not being used as an instrument to regulate the increase in projects awaiting execution by the Office for Project Services (paras. 56-62).

13. Procurement activities involving funds of $40 million in 1990 were only based on preliminary understandings with the donor. Purchase orders of about $3 million were placed without sufficient funds available in UNDP accounts (paras. 63-68).

14. More than 50 per cent of such procurement for which authority was delegated to the field years ago is still processed by the Office for Project Services at headquarters. The Office did not further delegate procurement authority as has become possible since early 1989 (paras. 69-73).

15. The Office for Project Services largely accepted a contracting practice that enabled resident representatives to commit UNDP to payments without a written contract (paras. 74-77).

16. Former United Nations staff members were hired for services involving fees of more than $12,000 in a given year, contrary to the provisions of General Assembly resolution 37/237 of 21 December 1982 (paras. 78-81).

17. In spite of a lack of reliable results and of an in-depth evaluation of the pilot phase, the Economists for Africa Programme (Economist Programme) was extended. An in-depth evaluation of the Programme had still not been carried out after five years of implementation (paras. 83-91).

18. Owing to their high grade levels and/or their specialist background, senior economists for the Economist Programme fit neither into the field office structure nor into the UNDP career pattern (paras. 92-97).

19. Recruitment, as well as extension of contracts, for the Economist Programme was not in line with staff rules and general standards of personnel management (paras. 98-102).

20. The three organizational units concerned with the Economist Programme have no consistent information on the number of posts, incumbents and vacancies. The actual number and placement of posts deviates from what was approved by the Governing Council (paras. 103-110).

21. A considerable number of duty stations for junior economists for the Economist Programme are vacated. In many cases the junior professional officers lack direct guidance by a senior economist (paras. 111-114).

V. FINDINGS

A. Agency accountability

22. As the activities of UNDP are financed largely by contributions from Governments, the question of accountability is a crucial one. The principles of UNDP accountability have been stated by the General Assembly in its resolution 2688 (XXV) of 11 December 1970. Paragraphs 30, 35, and 37 of the annex to the resolution emphasize that:

> 30. Full responsibility for proper utilization of funds of the Programme and for the exercise of financial and accounting controls will be borne by the Administrator.
>
> 35. The Governing Council has overall responsibility for ensuring that the resources of the Programme are employed with maximum efficiency and effectiveness in assisting the development of the developing countries.
>
> 37. In addition to the responsibilities to be delegated to him by the Governing Council, the Administrator will be fully responsible and accountable to the Governing Council for all phases and aspects of the implementation of the Programme.

The wording of paragraph 37 (except for the first half of the sentence) has also been incorporated into UNDP financial regulation 3.1.

23. Most of UNDP resources are entrusted to other United Nations organizations for the implementation of the programme activities. Almost $1.2 billion of about $1.4 billion total expenditure in 1990, was spent as programme expenditure and programme support costs. About 75 per cent of that amount was spent by executing agencies other than Governments, the United Nations Volunteers and UNDP itself.

24. The concept of full accountability as outlined in General Assembly resolution 2688 (XXV) can only be maintained if the executing agencies themselves are held accountable for the use of the resources entrusted to them to the same extent as UNDP is. Paragraph 43 of the annex to the resolution stipulates:

> 43. Every executing agent will be accountable to the Administrator for the implementation of programme assistance to projects.

The Governing Council has on many occasions urged that executing agencies should be fully accountable for the fulfilment of their obligations to UNDP (e.g. decisions 85/14, 85/15, 86/15 and 87/13).

25. UNDP financial regulation 8.10 (b) stipulates that "agreements shall be entered into between UNDP and executing agencies which are organizations of the United Nations system, specifying the general terms and conditions which are to govern UNDP's assistance to projects for which that organization has been designated as an executing agency". According to financial rule 108.13, these agreements shall include, inter alia, "the respective responsibilities of the executing agency and UNDP in the formulation, execution, monitoring and

evaluation of projects", as well as "arrangements for internal and external audit, financial and non-financial reporting, and other requirements in respect of accountability for UNDP funds".

26. The Governing Council has, through various decisions (e.g. 88/19 and 89/24), endorsed this regulation and requested the Administrator to enter into negotiations with those executing agencies that have not yet signed the standard basic executing agency agreement (SBEAA). To date only 16 out of 33 organizations listed as executing agencies in the Programme and Projects Manual have signed such an agreement with UNDP. Another seven organizations, including the United Nations and several subsidiary organs of the United Nations such as the regional commissions, have through an exchange of letters acknowledged the terms of the SBEAA. Of the remaining 10 organizations, 5 (Food and Agriculture Organization of the United Nations (FAO), International Labour Organisation (ILO), United Nations Industrial Development Organization (UNIDO), World Health Organization (WHO), World Meteorological Organization (WMO)) are specialized agencies, three (Economic and Social Commission for Western Asia (ESCWA), International Trade Centre (ITC), United Nations Conference on Trade and Development (UNCTAD)), are subsidiary organs, one, the United Nations Centre on Transnational Corporations, is a Secretariat unit, and one, the Arab Fund for Economic and Social Development, is an organization outside the United Nations system that does not meet the specifications for a UNDP executing agency as outlined in the Programme and Projects Manual.

27. In two cases involving major specialized agencies (FAO, ILO), which alone represent approximately 25 per cent of the expenditures spent by executing agencies, negotiations have reached a stalemate without much hope of finalizing the documents shortly. With six of the agencies without an SBEAA, a prior agreement or exchange of memoranda with the Special Fund, the predecessor of UNDP, does exist. Less detailed, and also insufficient as regards the aspect of accountability these documents cannot be considered equivalent to the SBEAA.

28. Four cases are without any written arrangement. In one case, a Secretariat unit, the United Nations Centre on Transnational Corporations, which is covered by the 1989 exchange of letters between UNDP and the Department of Technical Cooperation for Development of the Secretariat, this can be seen as dispensable. In all other cases, the ratification of agreements is urgently required. The Board is of the opinion that agencies showing no willingness to cooperate by entering into a SBEAA with UNDP fail to comply with the requirements of General Assembly resolution 2688 (XXV), which should disqualify them as executing agencies for UNDP activities.

29. The administration informed the Board that the agreements with UNIDO and WMO had been finalized and were awaiting signature. In the case of WMO, ratification by the governing body was still pending. Also, the finalization of the text with WHO was under discussion and signing was foreseen for the near future.

30. According to the currently used SBEAA, all agencies are accountable for their execution of UNDP-financed projects. It is stipulated that financial records and accounts are to be maintained, that periodic reports on the financial situation of projects are to be issued and that the executing agency

shall cause its external auditor to examine and report on the agency's accounts and records relating to projects and make such reports available to UNDP.

31. In previous years the agencies have, however, not provided audited financial statements in time for the audit of UNDP accounts. Hence, the Board of Auditors had to qualify its audit opinion on UNDP programme expenditures and programme support costs. Moreover, the audit reports later on provided to UNDP's external auditor did not convey sufficient information on whether the UNDP funds had been spent "with maximum efficiency and effectiveness" as required by the General Assembly resolution.

32. None of the standard formats used as a basis for the agreements with executing agencies provides for making such information available to UNDP or its external auditor. Neither is it mandatory for the audit to cover such issues as the effective and efficient management of funds provided by UNDP. In view of UNDP's full accountability, as emphasized in resolution 2688 (XXV), the existing provisions are not deemed sufficient to ensure the same degree of accountability for agencies as is required for UNDP.

33. One of the prerequisites to ensure such agency accountability would be to revise the respective provisions of the SBEAA so as to ensure full audit coverage. This would require that:

(a) The mandate of the agency's external auditor includes an assessment of the efficiency and effectiveness of the agency's project implementation;

(b) In addition to the official audit report, all pertinent audit findings are submitted to UNDP and its external auditor.

34. The Board is well aware that the envisaged extension of the audit scope to performance audits would involve additional costs. However, the Board feels that the benefits to be derived from these audits will by far outweigh the additional costs in the long run.

B. Office for Project Services

35. The Board reviewed several areas of activities within the responsibility of the Office for Project Services, in particular, the implementation of projects for which the Office has been designated executing agency and the procurement of goods and services for projects and on behalf of Governments.

1. Project budget management

36. The project delivery report as at 25 September 1990 showed negative balances for project budgets in 314 out of 1,673 cases, or 19.2 per cent. Besides cases in which the overexpenditure could be covered by the budget proposed for subsequent years, there were numerous cases in which this was not possible because, for example, expenditures were incurred without any approved budget for 1990 or these projects only had an approved budget for the year 1990 but not for subsequent years.

37. Despite the possibility of carrying out revisions, project budget overexpenditures also occur at the end of a year. At the end of 1989, this was the case for 51 out of 879 projects, or 5.8 per cent. Whereas allocations for these projects amounted to $3,755,976, expenditures totalled $6,000,290, exceeding the allocations by about 60 per cent. In 12 cases expenditures involving $185,559 were made without any allocation. For 11 projects with allocations of $340,880, expenditures amounted to $1,116,929, or 328 per cent, of the allocated amount. UNDP financial rules 110.1 and 110.2 require executing agencies such as the Office for Project Services to ensure that project expenditures do not exceed allocations, in any given year, by more than $20,000 or 4 per cent of the project budget for that year, whichever is higher. In 31 of the above-mentioned 51 cases, these rules were infringed.

38. The project delivery report of 25 September 1990 revealed that, at the end of the third quarter of 1990, 20 out of 32 project management officers had balances of more than 50 per cent of the approved budget to spend. As cases of overexpenditure reduce the total balance, related to single projects the balances appear to be even higher. This corresponds to the observation that numerous projects with approved budgets in 1990 had no budgetary activity at all at the end of September 1990.

39. The high percentage of projects with overexpenditures and the many cases in which expenditures had been incurred without any allocation available or in which the approved budgets were overrun by several hundred per cent indicate, as do the many unspent balances, a serious deficiency in project planning and/or project implementation. It appears obvious that the approved budgets do not fulfil their function to provide the funds necessary to achieve specified objectives as planned in a given time.

40. The administration pointed out that overruns were small in many of these cases. The deficiencies were due in the main to the fact that the necessary budget revisions had not been processed at the time of the audit, since the formalization might even require months because of the many entities involved. It was, however, agreed that financial management must be improved in general. More strenuous efforts to process budget revisions promptly were being pursued. Circumstances in the field often did not allow for precise planning of expenditures and limited flexibility might need to be considered to ensure progress in project implementation. The administration also indicated that delays in approval and start-up problems sometimes made expenditure forecasts for new projects unrealistic. The lack of an integrated management information system was a major structural problem in the financial management of these projects, which was already being addressed as an item requiring urgent attention.

41. As the administration is aware of the problem, the Board expects that it will be addressed without further delay with a view to improving the situation in the near future.

2. Financial completion of projects

42. As at September 1990, 353 projects, or 17 per cent, of all projects executed by the Office for Project Services that were not yet closed had a duration of at least 6 years. Funds of $350 million were involved. Some 186

of the projects, or 52.7 per cent, were either operationally completed or had had no budgetary activities since 1989. UNDP financial rule 110.5, which calls for financial completion of a project within 12 months after it has been operationally completed, has been infringed in at least 91 cases.

43. As executing agency the Office for Project Services is accountable for the funds it has accepted for the execution of projects. It has to monitor all aspects of project progress and to ensure compliance with the UNDP Financial Regulations and Rules. The cases mentioned reveal certain irregularities in project management, but they also indicate deficiencies in the timely execution of projects. Steps to improve the Office's performance are needed, not only on an ad hoc basis, but consistently. As the duration of a project should not exceed five years in general and seven years as an exception, the Office should also endeavour to close all 353 projects that had been ongoing for more than 6 years at the end of 1990.

44. The administration explained that, beginning in 1990, the issue had been addressed and 306 final revisions had been processed by the end of the year. The situation would be under control by the end of 1991. However, owing to some factors beyond the administration's control, financial completion could not always be achieved within one year after operational completion of a project. As an example, in many cases clearing travel obligations and processing final payments to experts might require more than one year.

45. Furthermore, many projects, especially those of a complex and innovative nature, would take longer to implement than originally planned. This issue, for further discussion, was being brought to the attention of those funding agencies responsible for the formulation of projects.

46. The Board notes that action is being taken concerning the final revision of projects. If in many cases, as indicated by the administration, timely completion of projects is made virtually impossible by problems inherent in the system, those should be identified and addressed without delay too.

47. Regarding the duration of projects, it cannot be verified whether or not 17 per cent of all Office for Project Services projects are complex and innovative in nature. The Board is, however, of the opinion that this is an issue to be addressed during the project approval procedure. The Office's Project Acceptance Committee ought to be the appropriate device to screen out projects that by their nature are not suited to be implemented and completed in a given amount of time as specified in the Programme and Projects Manual.

3. Technical devices for improved project management

48. EDP and other devices that could facilitate the monitoring functions and thus improve project management performance in quality as well as in quantity have not yet been implemented or are inadequate, as is disclosed by the following findings.

49. Project management officers have been provided with personal computers, however, the project management software recommended in an organization study in 1988 is still not installed.

50. The general ledger system used by the UNDP Accounts Section to record income and expenditure has not yet been fully connected with the Office for Project Services' fund control system. The general ledger system delivers the total amount of expenditures made, project by project, once a week to the fund control system, but further details of the expenditure needed for project management purposes are not given. For the time being these details can only be obtained by separate inquiry through the general ledger system. This cumbersome additional step would become unnecessary and the Office's work process could be rationalized accordingly if both systems were fully connected. The linkage between the systems would also facilitate the control of unliquidated obligations. Since in 1989 so-called savings of 34 per cent were recorded in this area, 1/ improvements in this respect are considered necessary.

51. According to the job description for project management officers, the Office's Operations Manual is supposed to be a guideline for performing the duties of a project management officer. The Manual has no systematic structure, however. It is partly incomplete and contains information that is outdated. The Office for Project Services is a steadily growing unit with a considerable increase in the number of projects and, correspondingly, of Professional staff, the numbers of whom has risen from 51 to 66, that is, almost 30 per cent, since 1987. Additionally, there have been numerous changes, at least eight during the last two or three years, in personnel at the project management officer level. To ensure continuity, uniformity and efficiency of performance in this situation, strong efforts are required to provide sufficient advice and guidance in particular to newly appointed staff members. The Operations Manual could be a significant source of assistance in this regard and the Board considers it necessary to improve the Manual as indicated above.

52. The administration acknowledged the gaps and defects noted in the Office's current management information system, particularly in the area of project management. It was explained that systems were located on different computers and written in different languages. The information they provided was not always timely or accurate. Until these systems were redesigned and implemented in a common language on a common computer, effective and automated support for project management would continue to be difficult to provide.

53. Furthermore, the administration emphasized that the Office depended on UNDP financial and administrative systems for many of its information needs. Over the next three years these systems would be redesigned and rewritten under the integrated administrative system project. In the interim the Office had engaged, in early 1991, the same consultants involved in the integrated administrative system project to formulate recommendations for immediate improvement to its information systems. It was assured that that interim effort would not jeopardize later integration with the system. Subsequently, an overall information systems implementation plan would be formulated.

1/ Official Records of the General Assembly, Forty-fifth Session, Supplement No. 5A (A/45/5/Add.1), para. 86.

54. Cognizant of the weaknesses of the Office's Operations Manual, the administration has engaged the services of a consultant to revise and update the guidelines. This exercise is expected to be completed by the end of 1991.

55. The Board acknowledges the current efforts to provide the Office for Project Services with the technical assistance and up-to-date information systems necessary for a more efficient discharge of responsibilities. However, as most of these deficiencies have been evident for years, appropriate measures were overdue. An earlier systematic approach identifying information needs and requirements could have avoided the current difficulties as well as the need for costly interim measures.

4. Workload of project management officers and the role of the Project Acceptance Committee

56. The responsibility for monitoring projects executed by the Office for Project Services rests mainly with the project management officers. An analysis of their workload revealed that, in 1990, a project management officer had to manage an average of 43 projects, with a budget of $10.2 million. The individual workload differed from 3 to 95 projects and from $100,000 to $28.4 million in terms of budgets. Division chiefs managed between 15 and 43 projects with budgets ranging from $2.6 million to $26.8 million although, according to their job descriptions, they are mainly responsible for the overall management of their divisions and of the projects assigned to them for execution.

57. Although a considerable share of the projects may be operationally completed or inactive, project management officers have to deal with a considerable workload. Moreover, the workload seems to have been distributed rather unequally. In particular, it appears doubtful if the division chiefs can appropriately discharge all their responsibilities in addition to managing their portfolio of projects with adequate diligence.

58. The number of projects continues to increase. Until September 1990, 250 new projects with budgets amounting to more than $300 million were accepted by the the Project Acceptance Committee, which actually does not accept or reject projects, as its name would imply, but instead mainly reviews and, at most, defers proposed projects with a view to implementation needs. This policy involves the risk that the deficiencies in project management mentioned will become permanent and might even increase. Options for adjusting the number of projects to the capacities available should be reviewed.

59. In the view of the administration, a structural solution through an adjustment of manpower and support capacities is essential for the capacity problem the Office for Project Services is facing. Efficiency gains could only provide a partial remedy. The uneven distribution of workload between project management officers reflected the wide range of complexity in the Office's projects. The problem was being addressed by refining the workload management system to ensure that projects were appropriately assigned. Efforts made in the past to relieve division chiefs of a part of their portfolio had been thwarted by the overall pressure of work. Recently,

however, it had been decided that they should not devote more than 10 per cent of their time to project management duties.

60. The Board was also informed that the Office was formulating a new project acceptance policy leading to a more critical scrutiny of proposals and distinguishing between projects requiring managerial and non-managerial support, in order to exert better control over the Office's portfolio and improve project management.

61. In the Board's opinion uncompromising efforts will be needed to control tightly the number of new projects in view of the limited capacities. This requires a reliable mechanism for identifying the projects best suited for execution by the Office along with an increase of administrative efficiency by streamlining procedures, making full use of up-to-date information systems and optimizing the distribution of workload. This may bring about better results in terms of improved performance than any further substantial increase of staff (the Professional staff of the Office increased between 1987 and 1990 by almost 30 per cent).

62. The administration should also be aware that further uncurbed growth might eventually eliminate the competitive advantage attributed to the Office in being a relatively small agency compared to other United Nations organizations. Instead, the administrative red tape involved would be likely to grow and make procedures within the Office as well as between it and other UNDP units more cumbersome and time-consuming.

5. Procurement services on behalf of Governments

63. The Office for Project Services provides management services such as the procurement of goods for the use of recipient Governments funded by donor Governments. The Board reviewed the largest of these programmes involving funds of about $40 million for 1990. In the case reviewed the donor had deposited money in a bank account accessible only to the recipient Government for the transfer of funds to UNDP. In 1990, the recipient country attempted twice to transfer the money to an account beyond the access of the Office.

64. In this case the Office had no contract with the donor protecting its legal rights and preventing such attempts at manipulation. Only so-called "preliminary understandings" existed, while the Office committed itself by placing purchase orders of almost $3 million without sufficient funds available in UNDP accounts. Should any such attempts to divert funds prove successful in the future, UNDP would have to bear the loss ensuing from a necessary cancellation of purchase orders already issued, unless recovery could be achieved elsewhere.

65. The administration does not consider formal agreements with the donor necessary as UNDP is not the recipient of the donation and a separate "exchange of notes" exists between the donor and the recipient, as well as a "management services agreement" between the recipient and UNDP. Also, it was stated that similar procedures were followed in cases in which the funds were provided by the World Bank or the Inter-American Development Bank. The preliminary understandings were a reflection of an arrangement to commence the programme only. No loss to UNDP had ever occurred under this arrangement.

Neither was a loss to UNDP considered likely in the future as the combination of the exchange of notes and the banking arrangement made it virtually impossible for a recipient Government actually to transfer the funds into another account. Responsibility for such a transfer of funds, should it occur, would rest with the bank.

66. Concerning the placement of purchase orders without sufficient funds available in UNDP accounts, it was explained that this occurred only in the very rare situation where purchase orders were issued on a particular date, just before the expiration of the bid validity, and on the warranted anticipation that the funds covering them were being credited. The donor had recently agreed in principle for recipient Governments to provide a letter of credit in the amount of the entire grant for UNDP to draw down funds as required. This procedure would be stipulated in the management services agreement. The Office was proceeding to implement this new financial arrangement in new agreements and would seek amendments to existing ones when transfer of funds to UNDP might be subject to inordinate delay.

67. In the Board's opinion, preliminary understandings do not provide a sufficiently solid legal basis for activities involving $40 million a year. Reliable contractual links should be established with both the donor of funds and the recipient of the services rendered by the Office for Project Services. A contract solely with the recipient Government provides little security, as the funds to cover the commitments entered into by UNDP can only be supplied by the donor Government. This kind of arrangement is therefore not considered sufficient.

68. UNDP should not have to rely upon a party with which it has no contractual links. To avoid any risks, UNDP should make it a requirement that the donor commits itself to warranting that UNDP will receive the funds it is entitled to if direct payment by the donor cannot be agreed upon. A letter of credit, as currently under discussion, will only provide security for UNDP if it is irrevocable and issued directly by the donor in favour of UNDP. At any rate, under no circumstances should commitments be entered into without sufficient funds actually available on UNDP accounts.

6. Delegation of procurement of project equipment

69. As can be seen from the annual reports of the Office for Project Services for recent years, a large share of all purchase orders processed by the Office at headquarters have values of up to $10,000. In 1989, 685 out of 1,275 purchase orders, or 53.7 per cent, were in this category. These 685 purchase orders represented, at the same time, only 4.07 per cent of the total value of all purchase orders processed by the Office which amounted to about $60 million. Looking at the years 1987 to 1989, an average 53 per cent of all purchase orders issued by the Office at headquarters had a value of up to $10,000, which covered only 6 per cent of the total value of purchase orders.

70. The purchase orders were processed by headquarters staff although the authority for local purchase of project equipment had been delegated to the field years ago. This was enacted pursuant to UNDP financial rule 114.23, which, until year-end 1988, stipulated that, under certain conditions, there

was no need to call for invitations to bid or requests for proposals when the intended contract involved commitments of less than $10,000. Financial rule 114.23 was revised as at 30 December 1988 so as to raise to $20,000 the limit below which invitations to bid and requests for proposals were not required. Consequently, the UNDP Division for Administrative and Management Services authorized field offices to issue purchase orders with a value of up to $20,000. The Office, however, did not adjust its instructions for procurement of project equipment accordingly.

71. The Office for Project Services has been acting contrary to its own directives for years. Moreover, since 1989, its instructions for procurement do not coincide with the corresponding instructions of the Division for Administrative and Management Services any more. The current practice at least doubles the workload of the Office's purchasing section at headquarters. A considerable decrease in the staff capacity needed for purchasing functions at headquarters could be expected if the Office were to delegate those functions to the extent possible.

72. The administration agreed to delegate authority for local procurement up to the limit of $20,000. It was, however, maintained that even with this additional delegation of authority some field offices might not always be able to carry out all the purchases on behalf of the Office and might still come back requesting it to procure certain goods.

73. In addition to adjusting the Office's delegation instructions to those of UNDP, the Board considers it imperative to enforce local handling of purchase orders to achieve a major decrease of the Office's workload. The Board strongly suggests that it should change its current policy as soon as possible.

7. Consultant contracts

74. Reviewing procedures for contracting services, for example, those of consultants, the Board found that extensive use is made of ex post facto contracts. During the three months from July to September 1990, 41 ex post facto requests for payment of consultants with a value of $328,110 were received from field offices and processed by the Office. This practice enables resident representatives to commit UNDP to payments without a contract being signed, since the Office receives the requests only after the consultants have commenced or even completed their missions.

75. The Office should immediately put an end to this practice, which infringes UNDP financial rule 114.24 and should advise field offices not to enter into commitments without a written and signed contract. It should also be strongly made clear to all staff concerned that it is a question of personal liability to comply with Financial Regulations and Rules.

76. The administration replied that the Office for Project Services was not at liberty to decline honouring commitments made by other organizational units of UNDP in projects that were executed directly by UNDP. Many of the consultants would proceed on mission in good faith when sent by the resident representative so that the Office had little practical choice but to underwrite post facto what had occurred. The administration conceded, however, that the number of such ex post facto contracts had reached an

unacceptable level. It had, therefore, raised the subject in meetings with the other organizational units concerned and a circular would be issued shortly to inform resident representatives of the need to adhere more strictly to procurement and recruitment procedures, thereby avoiding the need for retroactive approvals.

77. Although acknowledging the practical difficulties involved for the Office, the Board reiterates that action has to be taken without delay as the current practice cannot be tolerated.

78. Section VIII, paragraph 3, of General Assembly resolution 37/237 of 21 December 1982, as confirmed by section XII, paragraph 2, of resolution 39/236 of 18 December 1984, prohibits former staff members who receive a pension from being paid for work performed under a contract or a special service agreement in the United Nations system if the annual amount paid exceeds $12,000. The Board found cases where services had been performed with a value exceeding that limit before it was detected that the contractors received United Nations pensions.

79. The Board urged that appropriate procedures should be established to verify whether or not a candidate is a pensioner and has other contracts with United Nations organizations.

80. The administration agreed that greater efforts would be required to ensure that General Assembly resolution 37/237 was diligently followed. This would require a centralized system of information for all contractual arrangements of retired staff members. As for now, the administration had made arrangements with the United Nations Pension Fund and confirmation was now obtained before a contract was concluded. Also a review mechanism had been established with the Division of Finance to ensure compliance with the resolution.

81. The Board appreciates the measures taken so far, but considers it necessary to pursue further the establishment of a centralized information system.

C. Economists for Africa Programme

82. As a response to the economic crisis in Africa in the early 1980s, UNDP designed a special strengthening package for the region. Part of the concept that was approved by the Governing Council in June 1985 was the deployment of economists to assist the implementation of several strategy-based initiatives, such as the National Technical Cooperation Assessment and Programmes (NaTCAP), Round-Table Cycles and Consultative Group Meetings, Structural Adjustment Advisory Teams for Africa (SAATA) and the Special Action Programme for Public Administration and Management in Africa (SAPAM). This concept will be referred to here as the "Economist Programme". The principal findings with respect to the implementation of the concept as well as to deficiencies concerning personnel management and organization are addressed in subsequent paragraphs.

1. Implementation of the concept

83. During the pilot phase, an experimental period from July 1985 to May 1988, UNDP fielded 12 senior economists (10 in Africa, 2 in Arab countries) and a number of Junior Professional Officers as junior economists. In the Regional Bureau for Africa at headquarters, a support unit was established. The 10 senior economists deployed in Africa had to cover 28 countries. Owing to difficulties in recruitment, some of the 10 field posts could be filled only towards the end of the experimental period. Moreover, the performance of several of these initial recruits was considered inadequate.

84. None the less, based on a 1987 assessment, UNDP requested a substantial increase in staff as early as May 1988. This was approved as well as a further slight increase in 1989. In 1990, there were 32 approved posts for senior economists, 27 of them for the Regional Bureau for Africa (5 at headquarters, 22 in field offices). The total biennial budget expenditure is estimated at $12.5 million. An in-depth evaluation of the programme has not yet been carried out.

85. Although new ideas to make development aid more effective are certainly to be encouraged, it is considered imperative that they be put to the test and eventually implemented in the most economical and efficient way. In this respect, the Economist Programme shows deficiencies.

86. When the first 10 economists were hired to cover a total of 28 countries, it could and should have been obvious that a sustained impact, if any at all, could not be achieved by such a dispersal of efforts. To assess the benefits of a concept that could provide a sound basis for further decisions, clearly identifiable results have to be obtained. By spreading scarce resources thinly, the attempt to achieve such results is almost certainly bound to fail.

87. As such an approach was chosen by the administration, its responsibility for obtaining reliable results before proposing an increase in resources would have warranted considering an extension of the trial period. This would have been all the more appropriate since the fielding of the economists had proven more difficult than expected and was in some cases considerably delayed. Also, the low quality of performance in some cases with its negative impact and, in particular, the fact that the strategy-based initiatives were only gradually launched during the pilot phase should have called for additional testing and more thorough analysis. In view of these shortcomings, the Board cannot see a sound basis for a valid assessment of the Economist Programme that would have justified broadening its scope to the current size with the consequent budgetary impact.

88. Moreover, in the Board's view, a clear concept of what is to be achieved by the Economist Programme and on what time-scale is missing. Thus, at least short-term and medium-term objectives against which achievements could be evaluated will prove to be difficult to identify in terms other than an increasing number of activities. Moreover, the value of these activities has not yet been sufficiently proven. As a case in point, during the Second Seminar of Field Economists in January/February 1990, five years after commencing activities, the "methodological weaknesses" of NaTCAP were mentioned and it was stated that it had "not yet proven to be an effective approach to the management of technical cooperation".

89. Although the administration agrees that the trial period suffered from numerous deficiencies, it is of the opinion that it nevertheless further confirmed and demonstrated the need for professional economic capability in the African field offices and the need to provide qualitatively and quantitatively adequate personnel. The administration is convinced that the results of the starting period warranted the extension of the programme, which had been part of the management response to the problem of dispersal of effort during the starting period. The extension had been justified to and approved by the Governing Council. An extension of the pilot phase with the same approach would not have served the purpose of responding to the priority need of African Governments. The administration regards the evident difficulties during the pilot phase as inevitable under the circumstances and stresses that those problems have been or are being addressed in a dynamic management process.

90. In response to the Board's observation concerning the clear definition of objectives, the administration stated that the objectives and rationale of the Economist Programme had been adopted by the Governing Council and individual terms of reference had been established. The purposes of the initiatives the economists were involved in had been reviewed, debated and developed accordingly. One evaluation of strategy-based activities had been carried out already and others were under way, which would enable the administration to pass judgement on the validity of the activities launched. The idea of an in-depth evaluation of the Economist Programme would be supported by the administration and was envisaged for the near future.

91. As no evidence supporting the administration's opinion was presented to the Board, it cannot follow the administration in the conclusion that the trial period, however short and deficient it was, nevertheless produced reliable results that warranted the substantial increase in resources in 1988, and that the objectives of the programme were clearly enough defined to provide a scale against which those results could have been measured. Also, the Board wishes to reiterate that the assessment or evaluation of some of the activities the economists are involved in cannot replace a full-scale evaluation of the Economist Programme itself. The approval of the programme and its extension by the Governing Council, which, in 1985 as in 1988, was based solely on the proposals of the administration, does not relieve the latter of its responsibility to design, test, improve and eventually implement a new development initiative in the most economic, effective and efficient way. In these respects the Board noted deficiencies that call for improvements in future cases.

2. Economists in the UNDP pattern of career development

92. Senior economists are hired as highly qualified specialists at P-5 or D-1 level. Therefore, they do not fit into the general UNDP career pattern and have very limited perspectives in that respect. Moreover, they have been awarded only one-year or two-year contracts so far, which makes them more likely to leave after a few years. A high degree of fluctuation neither supports a skilled discharge of responsibilities nor is it economical in view of the costs of the recruitment procedure.

93. The administration assured the Board that, as a result of a recent review, a letter had been sent to all senior economists detailing their enhanced career opportunities in terms of greater flexibility in reassignment as an economist and increased potential for absorption into UNDP's normal career track.

94. The Board takes note of the steps initiated, the results of which cannot yet be assessed.

3. Economists in the field office structure

95. In most cases, senior economists have the same or an even higher grade level than the resident representative to whom they report and whom they are supposed to assist. Accordingly, they do not quite fit into the usual field office structure. This is underlined by the fact that, after discussion with the respective resident representative, the economists' work programmes are approved at headquarters.

96. The administration assured the Board that the problem was being addressed by taking into account the staffing configuration of field offices in placing economists, by preparing clear terms of reference and by in-depth briefing of both the economists and the resident representatives.

97. Although the Board appreciates the efforts undertaken, they cannot be expected to solve the principal problem involved in the grade level structure and the different line of reporting as compared to other field office staff.

4. Contracting procedure and extension of contracts

98. The economists recruited until 1990 were hired on one-year L-contracts under the 200 series of United Nations staff rules, although they were neither project personnel nor was there any intention to limit their employment to just one year. The reason for this procedure was that these economists could be hired without the approval of the Appointment and Promotion Board. This bypassing was considered necessary because, until recently, the Board did not meet regularly every month. It is now intended to convert all L-contracts to P-contracts.

99. Reviewing a sample of four personnel files of economists, the Board found that only two out of nine contracts were signed before the economist took up or, in cases of an extension, continued his duties. Delays amounted to six months in some cases. In cases of extensions of contracts, performance evaluation reports were often not finalized before the meeting of the Appointment and Promotion Board.

100. The Board emphasized that it is within the responsibility of UNDP to ensure that the established procedures are complied with. Accordingly, regular meetings of the Appointment and Promotion Board should have been ensured well before 1990. The additional workload involved in having to convert all L-contracts (not only for the economists) could have been avoided. Also, staff who it is intended should stay for periods of time longer than just one year should, on principle, be presented to the

Appointment and Promotion Board before the initial appointment and not just for an extension. The decision of the Board should be more than a formal act as it appears to be when, for example, on one occasion a total of 67 staff, many of them economists, are recommended for extension of contracts by the Regional Bureau for Africa. Moreover, contracts should be signed on a more timely basis.

101. The administration assured the Board that procedures had been changed, since the Appointment and Promotion Board now met regularly and more frequently. Also, the timing of contract issuance had been reduced and, as economists were now recruited under the 100 series of staff rules, the conversion process from L- to P-contracts had been eliminated for newly appointed recruits.

102. In addition to the changes implemented so far, the Board considers it necessary for contracts to be signed before the economists commence work. Also, it should be ensured that performance evaluation reports are completed before the Appointment and Promotion Board decides upon the extension of contracts.

5. Placement of economists

103. Several discrepancies were noted in information about posts, their incumbents and vacancies. In particular, the Regional Bureau was not aware that a twenty-second field economist post had been approved for 1990. The post was occupied by a programme management advisor.

104. Five economist posts were approved by the Governing Council for the Least Developed Countries Support and Economic Advisory Unit at headquarters, but only four of these posts were actually placed in the Unit at the time of the audit, whereas the fifth one had been transferred to another unit. On the other hand, a total of eight economists were employed in the Unit, one of them until September 1990 on a project-funded post.

105. The Board is concerned about the discrepancies in information that exist between the organizational units. As the number of economists is small compared to the total number of staff, it should easily be possible to follow up on changes on a timely basis. In particular, the Regional Bureau for Africa as the unit managing the Economist Programme should be aware of the number of posts at its disposal at any given time.

106. UNDP should endeavour to comply with the decisions of the Governing Council, in so far as the posts approved for a certain purpose should be used for that purpose. Accordingly, the economist posts at headquarters and in the field should be occupied by economists. On the other hand, it stands to reason that the total number of posts approved for a specific purpose should not be exceeded. In particular, this should not be done by using project-funded posts as was the case with the Regional Bureau for Africa.

107. The administration explained that the discrepancies in information about posts, incumbents and vacancies were due in large part to the different dates at which reports were prepared. Although they were regarded as minor and not

reflecting major gaps in management, efforts were being made to improve communication flows.

108. Concerning the inconsistencies in the use of posts, specifically in the Least Developed Countries Support and Economic Advisory Unit at headquarters, the administration pointed out that the Governing Council had approved five additional posts, whereas two core posts had already been in existence, that the project-funded post was occupied only for a short period of time and that the post transferred to another unit was being regularized. The administration was therefore of the opinion that the number of economists at headquarters did not exceed the number of posts approved.

109. The Board takes note of the explanation as to the information gaps between different headquarters units. In view of the fact that the economist post mentioned was approved in May/June 1989, but was still unknown to the Regional Bureau for Africa in October 1990, the administration might reconsider the urgency of remedial action. To the Board, this incident, along with other less important discrepancies, indicates a failure in the administration's system for the exchange of relevant information between different units.

110. The Board did not question whether all posts of the Least Developed Countries Unit had been approved at some point of time and for some specific purpose. However, in the Board's opinion, it should also be made sure that posts are used only for the purpose for which they have been approved. Otherwise the costs attached to the implementation of a certain activity, such as the Economist Programme, cannot be clearly and completely identified by the decision-making organs. Project funds should under no circumstances be used to support core or programme support activities.

6. Junior economists

111. Part of the Economist Programme is the deployment of junior economists in the field. They are Junior Professional Officers with a background in economics financed by their respective Government. Within the framework of the Africa strengthening package, they are supposed to assist the senior economists and, on the other hand, receive guidance from them. However, owing to the fact that several economists have to cover more than one country, many Junior Professional Officers had, and still have, to work without direct guidance from a senior economist. In October 1990, this was the case for 10 out of 18 Junior Professional Officers. Moreover, the Division of Personnel claimed that recruitment was difficult because the profile required by the Regional Bureau for Africa could hardly be met. Suitable candidates would either be no longer junior or they would expect career prospects that could not be provided. On the other hand, the Regional Bureau claimed that it was hardly involved in recruitment and placement.

112. The concept of using Junior Professional Officers as junior economists in field offices to build small economic units has not proven successful so far. The prime prerequisite, to provide them with guidance by a senior economist, could not be met to the extent that would have been necessary. This was due in part to the difficulties in recruitment and separations of staff that left many posts of senior economists vacant. However, the decisive reason was the

concept of the Economist Programme. In the beginning, the economists were supposed to cover 28 African countries. According to the current concept, 10 out of 22 posts for senior economists are still meant to serve two countries at a time. Therefore, the junior economists in countries without a resident senior economist have to work on their own most of the time. Not being experienced enough to address complex macroeconomic issues without appropriate guidance, they are usually regarded as additional manpower for the field office. Moreover, since Junior Professional Officers stay only one or two years in the field, they are already about to leave before they can become productive. In addition, suitable new candidates are not available in sufficient numbers to cover all duty stations. Also, it is unfortunate that the unit responsible for the Economist Programme as a whole sees itself only in a minor role as far as the junior economists are concerned.

113. Recognizing these shortcomings, the administration stated that the entire concept of junior economists was under serious review. While in many instances it could be potentially desirable to utilize national professionals instead of Junior Professional Officers as support to senior economists, many junior economists had made a solid contribution. The junior economist programme would remain tightly controlled. In the future, junior economists would only be assigned to duty stations where senior economists were present.

114. The Board regards it as necessary that during the review currently undertaken by the administration all the problems outlined above be addressed and appropriate solutions found. Otherwise, a sustained impact cannot be expected from the deployment of junior economists and phasing out should be considered.

VI. ACKNOWLEDGEMENT

115. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended by the Administrator of the United Nations Development Programme, his officers and members of their staff.

(Signed) Heinz Günter ZAVELBERG
President of the Federal Court
of Audit of Germany

(Signed) Eufemio C. DOMINGO
Chairman, Commission on Audit
of the Philippines

(Signed) Osei Tutu PREMPEH
Auditor-General of Ghana

ANNEX

Follow-up on actions taken on previous audit recommendations

Recommendation 6 (a) of the 1989 Board report

1. The Board had pointed out that further efforts are needed to obtain audited statements of UNDP expenditure incurred by executing agencies in time for the issuance of the audit opinion on the financial statements of UNDP.

Measures taken by the administration

2. The administration stated that there was little more UNDP could do to ensure the timely receipt of audit certificates for executing agencies. The 30 April deadline for receipt of the certificates was regularly set out in the year-end instructions sent to all agencies in November of each year and UNDP stringently followed up receipt of the certificates. The issue was consistently on the agenda of the meetings of the Consultative Committee on Administrative Questions in March and September of each year and was again discussed in detail in 1991. Systems and procedures were being reviewed with the aim of speeding up the agencies' closure processes. Although UNDP would continue to stress the need to receive audit certificates on a timely basis, it was, however, considered virtually impossible to adhere to the schedule.

Findings and comments by the Board of Auditors

3. The Board is aware of the difficulties encountered by the administration, but regards it as necessary that a definitive solution for this ongoing problem be found. The Board emphasizes that the audit opinion on the UNDP financial statements has to remain qualified until sufficient audit substance is obtained for expenditures incurred by executing agencies.

Recommendation 6 (b) of the 1989 Board report

4. The Board had recommended that guidelines ensuring correct delineation between programme and operating expenditure should be issued and pertinent existing guidelines revised.

Measures taken by the administration

5. The administration noted that it had addressed the issue of delineation for project, programme support and administrative expenditures in the biennial budget estimates for 1992-1993 (as per document DP/1991/49). Specific proposals had been made to reflect such delineation in the UNDP appropriation structure. These proposals need to be endorsed by the Governing Council in June 1991 before actual implementation.

Findings and comments by the Board of Auditors

6. Considering that the proposal for a new budgetary categorization of expenditures has yet to be endorsed by the Governing Council, at this point, the Board cannot assess whether the predicted results and, specifically, a reduction in the number of project-funded posts at headquarters will eventually materialize. Besides, new guidelines on project-funded posts will still have to be issued after the approval by the Governing Council.

Recommendation 6 (c) of the 1989 Board report

7. The Board had recommended that more detailed and clearer instructions should be issued to keep all UNDP personnel aware of their personal responsibility and financial liability.

Measures taken by the administration

8. The administration informed the Board that it had issued a circular on 30 August 1990 to all UNDP staff members citing the applicable financial rules. The circular also identified areas of possible abuse and outlined actions to be taken when irregularities came to light. The Accounts Section of the Division of Finance and the Division for Audit and Management Review had been asked to monitor all activities to ensure compliance with existing rules and procedures. All write-offs were now reviewed to identify responsibility and liability, and the write-off request was to include a reference to the investigation in this regard. In addition, the rules on responsibility and liability had been incorporated in all training courses dealing with financial matters. In view of the actions taken the Bureau for Finance and Administration had already requested special audits on two items.

Findings and comments of the Board of Auditors

9. The Board appreciates the efforts undertaken by the administration. The administration is advised to be decisive in reviewing the implementation of the guidelines. It should exercise a stringent, consistent and transparent policy to make staff members more aware of their personal responsibility. The Board will follow up on this matter.

Recommendation 6 (d) of the 1989 Board report

10. The Board had recommended that the aspect of general deterrence in the prevention of fraud should be given more consideration.

Measures taken by the administration

11. The administration pointed out that the issue of pursuing legal action against erring employees was to be dealt with on a case-by-case basis and that

such a decision was at the discretion of the Secretary-General. The Administrator's authority to establish policies for UNDP could not supersede the authority of the Secretary-General. UNDP had requested and received the authorization to pursue legal action in instances when the Secretary-General felt it appropriate. The administration felt that the actions taken with respect to financial responsibility and liability had already made a significant impact on the staff and might serve as a general deterrent.

Findings and comments of the Board of Auditors

12. The administration's reply might suggest that the recommendation of the Board had only been limited to the pursuance of legal action, which, in fact, was not the case. It should be understood that the Board is not only concerned with the pursuit of legal action but more of creating an environment adverse to the perpetration of fraud. The Board feels that the steps taken by the administration in this respect are inadequate.

Recommendation 6 (e) of the 1989 Board report

13. The Board had recommended that before establishing new trust funds or sub-trust funds, the impact on the administrative workload and efficiency of management should be taken into account.

Measures taken by the administration

14. The administration stated that the Division of Finance reviewed its handling of trust funds. The study showed that various sections involved had the operations incorporated in their regular activities. The Treasury Section had computerized the handling and receipt of contributions. The incremental workload was considered insignificant and adequately covered by the extrabudgetary funds. The investing of funds was co-mingled and therefore the costs could not be identified separately. The Accounts Section treated each trust fund as a separate entity and felt also that the incremental costs were adequately covered by the extrabudgetary funds. In addition, the administration was planning to conduct a feasibility study in 1991 on the computerization of the recording of expenditures.

15. The Board was further informed that in 1989 an amount of $224,942 was collected for administrative support and distributed among the Bureau for Finance and Administration, regional bureaux and field offices. The Administrator believes that that amount was sufficient to cover the costs for the additional workload of handling trust funds.

Findings and comments by the Board of Auditors

16. Further review by the Board revealed that no data showing the actual amount of costs involved in administering a trust fund could be provided. Hence, there is no indication that the costs have been fully recovered.

17. Apart from the question of full recovery of costs, the Board had requested that prior to the establishing of new trust funds the impact on workload and management efficiency be assessed. The raising of the support cost rate, which is supposed to cover the additional administrative costs, indicates that the total share of funds allocated to cover operating costs, as against project costs, is rising. Notwithstanding that, the Administrator in 1990 established eight new trust funds and sub-trust funds that are financed by contributions ranging from $15,000 to $600,000.

Recommendation 6 (f) of the 1989 Board report

18. The Board had recommended that an up-to-date strategy for temporary employment needed to be developed.

Measures taken by the administration

19. The administration informed the Board that the UNDP Policies and Compensation Section, in conjunction with the International Civil Service Commission, had reviewed the contracts used for short-term staff. New contracts had been formulated and would be put into operation when the necessary clearances were given. Furthermore, compliance with United Nations Staff Rules would be enforced through field visits and training programmes.

Findings and comments of the Board of Auditors

20. The Board will keep the matter under review. While a new strategy and revised instructions for temporary employment are being developed, existing rules and instructions need to be enforced. In this connection, the Board emphasizes that compliance with the provisions concerning special service agreements has not yet been achieved in field offices to the extent necessary. Besides, a recent audit at headquarters revealed that the Office for Project Services widely accepted post facto requests for payment of consultants who had already commenced or completed their services, which is not in compliance with pertinent provisions.

Recommendation 6 (g) of the 1989 Board report

21. The Board had recommended that two-year project budgeting should be tested in field offices and executing agencies and more results be obtained before final and full implementation.

Measures taken by the administration

22. The Board was informed that the administration had extended the experimental period for another two-year period until 1992. In addition, a special module on two-year budgeting was added to training courses on programme matters. In the meantime, agencies and field offices were advised to identify and respond to any problems being experienced during the testing

period. According to recent statements by major agencies, the concept was expected to be strongly supported. The administration would closely monitor the experiment.

Findings and comments of the Board of Auditors

23. Recent audits of field offices showed that the concept of two-year budgeting is still not widely used and hardly known. The Board intends to investigate this matter further in view of the requests of the Governing Council and the Advisory Committee on Administrative and Budgetary Questions and to report on the results in due course.

Recommendation 6 (h) of the 1989 Board report

24. The Board had recommended that the accounting policy regarding the recording of unliquidated obligations at year-end should be clarified to remove the uncertainties in reported expenditure outlined in the audit report for the year ended 31 December 1989.

Measures taken by the administration

25. The administration stated that the Office for Project Services now included an obligation number in all cables to field offices and had instructed them to include this number on inter-office vouchers when payment was made. Further, an instruction was to be sent to all field offices stressing the need for compliance. So far, new guidelines could not be issued since the upgrade of the automated field office accounting system, including the requirements for an obligation number, had not yet been completed. In 1990, as in preceeding years, it was specified in the year-end instructions to the agencies what accounting policies should be adhered to in the establishment of obligations and what year-end procedures should be followed with respect to unliquidated obligations.

Findings and comments of the Board of Auditors

26. In the view of the Board, monitoring and reviewing unliquidated obligations should be further enforced to secure a timely cancellation of unused obligations against the related budget line.